



# CONNECTICUT TAX TOPICS



STATE OF CONNECTICUT

Department of Revenue Services

March 2000

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## CONN-TAX

### To REACH CONN-TAX CALL:

1-800-382-9463 (IN-STATE)

OR

860-297-5962 (ANYWHERE)

Touch tone callers have several choices:

- For questions concerning the Connecticut individual income tax, including the status of your refund, **press 1 \***
- To order tax forms or publications, **press 2 \***
- If you are calling about a billing notice or if you would like account information, **press 3**
- For information on sales tax and information on how to register your new business, **press 4 \***
- If you are notifying the Department of a change of address or if you have a question on the renewal of your sales tax permit, **press 5 \***
- For the Department's Web site address, mailing address, and directions to the regional offices, **press 6 \***
- To speak with a Taxpayer Services representative, **press 0**

If you are calling from a rotary dial telephone, you can reach us during our normal business hours (8:00 a.m. to 5:00 p.m.).

(\* 24 hour service)

TTY, TDD, and Text Telephone users 860-297-4911. (Telecommunications Device for the Deaf users only)

## TAX-FAX

If you have a fax machine with a handset, state tax forms, and tax information notices can be obtained 24 hours a day by calling **860-297-5698**.

## INTERNET

You can obtain tax forms and publications 24 hours a day from our site on the World Wide Web at:

[www.drs.state.ct.us](http://www.drs.state.ct.us)

## DRS OFFICES

Visit our main office in Hartford or our field offices in Bridgeport, Hamden, Norwich or Waterbury weekdays, 8:00 a.m. - 5:00 p.m. For directions, call CONN-TAX and **press 6**.

**CONNECTICUT TAX TOPICS** is a quarterly newsletter about sales and use taxes and other state taxes of interest to businesses. This newsletter is designed to provide general information for taxpayers and tax practitioners. It is not designed to explain in depth a current Department policy or practice affecting the liability of taxpayers. Nothing in this publication supersedes, alters or otherwise changes provisions of Connecticut General Statutes, regulations, Department rulings or tax information publications.

### Calculating Sales Tax for Goods and Services with a Reduced Tax Rate

**M**ost taxable sales in Connecticut are subject to a 6% sales tax. However, certain goods and services are taxed at a lower rate. A taxpayer must use the adjustment lines on the back of **Form OS-114, Sales and Use Taxes Return**, to properly calculate the amount of tax due.

There are four types of sales that are subject to a reduced rate:

**1. Sales, use, storage and consumption in this state of materials, tools, fuels, and machinery and equipment to be used primarily in manufacturing.** Effective July 1, 1996, the tax rate for sales, use, storage and consumption in this state of materials, tools, fuels, and machinery and equipment to be used primarily in

[Reduced Rate Calculation, on back](#)

### Beware Of Refund Claims for Sales Tax Paid on Gas and Electricity

**S**ome tax practitioners are offering to obtain refunds of sales and use taxes paid by certain businesses on electricity and natural gas, claiming that the businesses qualify as manufacturers or fabricators for purposes of the exemptions for gas and electricity under Conn. Gen. Stat. §12-412(3).

Businesses most frequently being approached include **donut and bagel shops**. Baking donuts or bagels *on a factory basis* may sometimes qualify as manufacturing. However, retail donut and bagel shops that bake on their premises almost **never** qualify as manufacturers or fabricators, and are **not** entitled to the gas and electricity exemptions.

To qualify as a manufacturer or fabricator in Connecticut, a business must meet stringent tests regarding floor space, employees, wages and salaries, operating costs, and sales revenues in connection with the manufacturing or fabricating activity. Even if a business does

[Refund Claims, on back](#)

### New U.S. Government Credit Cards Accepted for Exempt Purchases

**T**he U.S. General Services Administration (GSA) has replaced the I.M.P.A.C., American Express, and Wright Express credit cards with the **"GSA SmartPay" Credit Card Program**. The new credit card program authorizes U.S. Government employees and qualified governmental agencies to make government purchases of tangible personal property or services, including meals and lodging, exempt from sales and use taxes by using GSA SmartPay credit cards.

Sales of tangible personal property or services, including sales of meals and lodging made and charged directly to the U.S. Government, are exempt from Connecticut sales and use taxes. Sales to federal employees (rather than to the U.S. Government itself) are subject to sales and use taxes, even if the U.S. Government reimburses the employees for all or a portion of their purchases.

Effective February 3, 2000, DRS no longer requires federal employees to provide retailers with the *Governmental Agency Exemption Certificate* when using the GSA SmartPay Cards for tax-exempt purchases. In addition, U.S. Government agencies are not required to obtain pre-approval from DRS for meals and lodging when using the GSA SmartPay credit cards.

Purchases with Fleet Cards and Purchase Cards are tax exempt because they are billed directly to and paid by the U.S. Government.

Retailers may accept Fleet Cards and Purchase Cards with proper identification from the user, as evidence that the purchase is made by the United States and is exempt from sales and use taxes.

Purchases made with Travel Cards and Integrated Cards are not necessarily tax-exempt because some sales using these cards are billed to and paid by federal employees rather than by the U.S. Government.

To verify that an authorized person is using GSA SmartPay cards, a retailer must require identification that establishes the person's identity and status as a U.S. Government employee and note the employee's identification number and agency on the merchant copy of the sales receipt.

If a retailer has reason to believe that a card is being used to make any purchase not directly billed to and paid by the U.S. Government, or that for any other reason does not qualify for exemption under Conn. Gen. Stat. §12-412(1), the retailer must charge sales and use taxes on the purchase.

[GSA Smart Cards, on back](#)

The Mission of the Connecticut Department of Revenue Services is to administer the tax laws of the State of Connecticut and collect the tax revenues in the most cost effective manner; achieve the highest level of voluntary compliance through accurate, efficient and courteous customer services; and perform in a manner which instills public confidence in the integrity and fairness of the State's tax programs.

## Exempt Purchases of Motor Vehicles or Vessels by Nonresidents

Vessels and motor vehicles purchased from Connecticut dealers by nonresidents who maintain no permanent place of abode in Connecticut and who will not register the vehicles or vessels in Connecticut are exempt from Connecticut sales tax (Conn. Gen. Stat. §12-412(60), as amended by 1999 Conn. Pub. Acts 173, §21).

**CERT-125**, *Sales and Use Tax Exemption for a Motor Vehicle or Vessel Purchased by a Nonresident of Connecticut* (Rev. 03/00), has been revised and must be completed by dealers for the exemption to be claimed.

In an effort to encourage the proper use of **CERT-125**, the revised certificate requires dealers to acknowledge that they have explained the meaning of "permanent place of abode" to their customers. For an individual, a permanent place of abode in Connecticut includes **ANY** dwelling permanently maintained by the individual or his or her spouse, whether or not owned or leased by the individual, even if the individual does not permanently reside there. **CERT-125** may **never** be used when a customer maintains a permanent place of abode in Connecticut.

All motor vehicle and vessel dealers should immediately begin to use the new **CERT-125** (Rev. 03/00), and discard old versions of the certificate. Vessel dealers may not use CERT-107 for sales made on or after July 1, 1999. **CERT-125** is available on the DRS Web site. **T<sub>T</sub>**

### Understanding Connecticut Taxes Clearly

The DRS is pleased to offer *Understanding Connecticut Taxes Clearly*, a free program designed to provide a broad overview of Connecticut tax requirements for new and existing small businesses. Programs are held from 6:30 p.m. to 9:00 p.m. Call now to register.

### SPRING 2000 SCHEDULE

<b>March 2</b>	<b>March 9</b>
Norwich	Waterbury
<b>May 4</b>	<b>May 11</b>
Enfield	Norwalk

## Refund Claims, from front

qualify as a manufacturer or fabricator, there are additional requirements for the gas and electricity exemptions of sales and use taxes. If a business that is not qualified for the tax exemptions obtains a refund of sales and use taxes from a gas or electric utility, DRS will assess the business for the amount of the tax refund plus interest and possibly a penalty.

The same will apply to any unpaid tax that may be due because the business stopped paying sales and use taxes on its gas or electricity. The fact that the utility was persuaded to refund taxes to the business will not relieve the business of liability for the taxes, if the business does not qualify for the exemption. **T<sub>T</sub>**

## GSA Smart Card, from front

Retailers failing to follow the verification guidelines set by DRS for authorized GSA SmartPay card users may be held liable for sales and use taxes on the purchases in question.

For more information see **Policy Statement 2000(1.1)**, *Retailer's Acceptance of U.S. Government "GSA SmartPay" Credit Card for Purchases Exempt Under Conn. Gen. Stat. §12-412(1)*. **T<sub>T</sub>**

## Reduced Rate Calculation, from front

manufacturing, as described in Conn. Gen. Stat. §12-412i, the Manufacturing Recovery Act of 1992, is 3%. To properly report these sales, multiply the applicable gross receipts by 50% (.50). The total is entered on **Form OS-114**, Line 71.

**2. Computer and data processing services.** The tax on computer and data processing services is being phased out. If a retailer sells computer and data processing services on or after July 1, 1999, but before July 1, 2000, the gross receipts are subject to 3% sales and use tax. To properly report these sales, multiply the applicable gross receipts by 50% (.50). The total is entered on **Form OS-114**, Line 74.

**3. Renovation and repair services to residential property.** The tax on paving, painting or staining, wallpapering, roofing,

siding, and exterior sheet metal work to other than industrial, commercial or income-producing real property under Conn. Gen. Stat. §12-407(2)(i)(BB) is being phased out. If a retailer sells these services to other than industrial, commercial or income-producing real property on or after July 1, 1999, but before July 1, 2000, the gross receipts are subject to 4% sales and use tax. To properly report these sales, multiply the applicable gross receipts by 33.33% (.3333). The total is entered on **Form OS-114**, Line 75.

**4. Patient care services by hospitals.** Effective July 1, 1999, the tax rate for patient care services under Conn. Gen. Stat. §12-407(2)(i)(FF) is 5.75%. To properly report these sales, multiply the applicable gross receipts by 4.17% (.0417). The total is entered on **Form OS-114**, Line 76. **T<sub>T</sub>**

**EXAMPLE:** A painter is contracted to paint an owner-occupied residential property. The paint is supplied by the owner. The painter charges \$1,000 for her services and adds 4% Connecticut sales tax to the bill. If this was the only sale for the period, the return would be completed as follows:

(Line references used for this example are actual lines used when completing the **OS-114**, *Sales And Use Tax Return*.)

Line 3	<b>Gross receipts from labor and services</b>	\$ 1,000.00
Line 7	<b>Total</b>	\$ 1,000.00
Line 75	<b>Renovation and repair services to residential property (\$1,000 X .3333)</b>	\$ 333.33
Line 8	<b>Total Deductions</b>	\$ 333.33
Line 9	<b>Balance subject to tax (subtract Line 8 from Line 7)</b>	\$ 666.67
Line 10	<b>Gross amount of tax due (multiply Line 9 by .06)</b>	\$ 40.00

## NY/CT TAX ALERT: Clothing and Footwear Exempt From New York State Sales and Use Tax

Effective March 1, 2000, clothing and footwear costing less than \$110 per item are exempt from New York's 4% sales and use tax. The exemption applies to clothing and footwear worn by humans and to most component parts of exempt clothing used to make or repair exempt clothing. Charges for

alterations to exempt clothing are also exempt. Connecticut based vendors participating in the Connecticut/New York Reciprocal Tax Program are required to claim the exemption on New York Schedule H.


For more information see New York publications TSB-M-00(1.1)S and TSB-M-00(1)S. **T<sub>T</sub>**

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